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Erste Group achieves net profit of EUR 1,647.0 million in 1-9 2022, on track for ROTE of approx. 14% in 2022

Financial data

Income statement					
in EUR million	**Q3 21**	**Q2 22**	**Q3 22**	**1-9 21**	**1-9 22**
Net interest income	1,220.8	1,444.9	1,548.2	3,669.5	4,385.2
Net fee and commission income	591.4	599.5	615.1	1,690.4	1,829.9
Net trading result and gains/losses from financial instruments at FVPL	74.3	1.2	-89.5	201.0	-105.2
Operating income	1,944.3	2,110.4	2,124.0	5,735.0	6,270.7
Operating expenses	-1,038.0	-1,050.1	-1,096.0	-3,141.0	-3,381.3
Operating result	906.3	1,060.3	1,028.1	2,594.0	2,889.4
Impairment result from financial instruments	31.3	85.1	-184.3	-51.6	-158.3
Post-provision operating result	937.6	1,145.4	843.8	2,542.4	2,731.1
Net result attributable to owners of the parent	**533.4**	**688.2**	**510.0**	**1,451.4**	**1,647.0**
Net interest margin (on average interest-bearing assets)	1.98%	2.15%	2.24%	2.04%	2.19%
Cost/income ratio	53.4%	49.8%	51.6%	54.8%	53.9%
Provisioning ratio (on average gross customer loans)	-0.07%	-0.18%	0.37%	0.04%	0.11%
Tax rate	17.3%	19.0%	15.8%	19.0%	18.0%
Return on equity	13.7%	15.7%	12.5%	12.1%	13.2%

Balance sheet					
in EUR million	**Sep 21**	**Jun 22**	**Sep 22**	**Dec 21**	**Sep 22**
Cash and cash balances	47,125	42,818	44,552	45,495	44,552
Trading, financial assets	51,239	56,560	57,902	53,211	57,902
Loans and advances to banks	27,749	28,704	26,721	21,001	26,721
Loans and advances to customers	175,929	191,543	198,794	180,268	198,794
Intangible assets	1,326	1,315	1,300	1,362	1,300
Miscellaneous assets	5,872	6,153	6,028	6,090	6,028
Total assets	**309,240**	**327,093**	**335,297**	**307,428**	**335,297**
Financial liabilities held for trading	2,193	3,005	3,175	2,474	3,175
Deposits from banks	35,387	36,665	36,158	31,886	36,158
Deposits from customers	207,506	225,515	232,450	210,523	232,450
Debt securities issued	33,505	31,226	32,331	32,130	32,331
Miscellaneous liabilities	6,696	6,796	6,598	6,902	6,598
Total equity	23,954	23,886	24,584	23,513	24,584
Total liabilities and equity	**309,240**	**327,093**	**335,297**	**307,428**	**335,297**
Loan/deposit ratio	84.8%	84.9%	85.5%	85.6%	85.5%
NPL ratio	2.4%	2.2%	2.0%	2.4%	2.0%
NPL coverage ratio (based on AC loans, ex collateral)	92.7%	91.8%	96.8%	90.9%	96.8%
Texas ratio	18.0%	17.6%	16.2%	18.3%	16.2%
CET1 ratio (final)	14.2%	14.2%	13.8%	14.5%	13.8%

ERSTE Group

HIGHLIGHTS

P&L 1-9 2022 compared with 1-9 2021; balance sheet as of 30 September 2022 compared with 31 December 2021

Net interest income increased to EUR 4,385.2 million (+19.5%; EUR 3,669.5 million) driven in particular by rate hikes outside the euro zone – mainly in the Czech Republic, Hungary and Romania – as well as significant loan growth across all markets. **Net fee and commission income** rose to EUR 1,829.9 million (+8.3%; EUR 1,690.4 million). Increases were posted across nearly all fee and commission income categories and all core markets, with significant growth seen in particular in payment services and asset management. **Net trading result** declined to EUR -848.5 million (EUR 67.5 million); the line item **gains/losses from financial instruments measured at fair value through profit or loss** rose to EUR 743.3 million (EUR 133.5 million). The development of these two line items was mostly attributable to valuation effects. **Operating income** increased to EUR 6,270.7 million (+9.3%; EUR 5,735.0 million). **General administrative expenses** were up at EUR 3,381.3 million (+7.7%; EUR 3,141.0 million). Personnel expenses were higher at EUR 1,967.2 million (+4.6%; EUR 1,881.3 million). The marked rise in other administrative expenses to EUR 1,003.4 million (+18.5%; EUR 846.6 million) is mainly due to a substantial rise in payments into deposit insurance schemes to EUR 158.4 million (EUR 113.1 million) – most of the regular contributions expected for 2022 have already been posted upfront – as well as increases across all cost categories, in particular IT and office expenses. Amortisation and depreciation amounted to EUR 410.7 million (-0.6%; EUR 413.2 million). Overall, the **operating result** increased markedly to EUR 2,889.4 million (+11.4%; EUR 2,594.0 million). The **cost/income ratio** improved to 53.9% (54.8%).

Due to net allocations, the **impairment result from financial instruments** amounted to EUR -158.3 million or -11 basis points of average gross customers loans (EUR -51.6 million or 4 basis points). Net allocations to provisions for loans as well as for commitments and guarantees were posted in all core markets, with the exception of Croatia. Positive contributions came from continued high income from the recovery of loans already written off in all segments, most notably in the Czech Republic and Croatia. . After a review and release of Covid related provisions, an update of the forward looking indicator parameters (FLIs) as well as the introduction of management overlays for cyclical industries in the second quarter, additional management overlays for industries being highly effected by the volatile energy markets (energy, metals and chemicals) have been introduced in an amount of EUR 147 million in the third quarter. Overall, end of September crises-related general provisions amounted to EUR 676 million. The **NPL ratio** based on gross customer loans improved further to 2.0% (2.4%), the lowest level recorded since the IPO. The **NPL coverage ratio** (excluding collateral) was up at 96.8% (90.9%).

Other operating result amounted to EUR -246.5 million (EUR -243.3 million). Expenses for the annual contributions to resolution funds for the full year of 2022 included in this line item rose – most strongly in Austria and the Czech Republic – to EUR 139.1 million (EUR 108.5 million). Banking levies – currently payable in two core markets – increased to EUR 133.2 million (EUR 71.6 million). Thereof, EUR 108.4 million were charged in Hungary, including regular banking tax for the full financial year in the amount of EUR 16.1 million (EUR 14.9 million), transaction tax for the first three quarters in the amount of EUR 42.4 million (EUR 35.7 million) and a new windfall profit tax of EUR 49.9 million for the full year of 2022 based on the net revenues of the preceding year. In Austria, banking tax equaled EUR 24.8 million (EUR 20.9 million). A positive contribution came from the release of provisions for potential legal risks relating to Romanian consumer protection legislation in the amount of EUR 41.8 million also reflected in other operating income.

Taxes on income amounted to EUR 434.5 million (EUR 433.6 million). The minority charge decreased to EUR 332.6 million (EUR 397.2 million) due to lower earnings contributions of the savings banks mainly resulting from increased impairment of financial instruments. The **net result attributable to owners of the parent** rose to EUR 1,647.0 million (EUR 1,451.4 million) on the back of the strong operating result.

Total equity not including AT1 instruments rose to EUR 22.3 billion (EUR 21.3 billion). After regulatory deductions and filtering in accordance with the Capital Requirements Regulation (CRR), **common equity tier 1 capital** (CET1, final) rose to EUR 19.4 billion (EUR 18.8 billion), total **own funds** (final) to EUR 25.2 billion (EUR 24.8 billion). While the interim profit for the first two quarters of the year is included in the above figures and ratios below, the third quarter is not. Total risk (**risk-weighted assets** including credit, market and operational risk, CRR final) rose to EUR 140,8 billion (EUR 129.6 billion). The **common equity tier 1 ratio** (CET1, final) stood at 13.8% (14.5%), the **total capital ratio** at 17,9% (19.1%).

Total assets increased to EUR 335.3 billion (+9.1%; EUR 307.4 billion). On the asset side, cash and cash balances declined to EUR 44.6 billion (EUR 45.5 billion), loans and advances to banks went up – most notably in Slovakia, the Czech Republic and Austria – to EUR 26.7 billion (EUR 21.0 billion). **Loans and advances to customers** increased in all core markets to EUR 198.8 billion (+10.3%; EUR 180.3 billion), most significantly in in Austria and the Czech Republic. On the liability side, deposits from banks grew to EUR 36.2 billion (EUR 31.9 billion). **Customer deposits** rose in nearly all core markets – most strongly in Austria and the Czech Republic – to EUR 232.5 billion (+10.4%; EUR 210.5 billion). The **loan-to-deposit ratio** stood at 85.5% (85.6%).

OUTLOOK

Erste Group targets a return on tangible equity (ROTE) of approximately 14% in 2022 and 13-15% in 2023. This forecast is primarily driven by a stronger economic performance in 2022 than expected in spring, strong labour markets across CEE and faster than expected interest rate normalisation in the euro zone. While economic growth is forecast to slow down significantly in 2023 in the face of persistently high energy prices and generally higher inflation, continued constructive labour markets and normalised euro zone interest rates should support maintenance of solid profitability also in 2023. In P&L terms increases in operating result and low risk costs are expected to remain the key drivers for earning the cost of capital. Key assumptions for the outlook include: economic slowdown but no negative year-on-year real GDP growth, no further material political or regulatory interventions beyond the impact of the potential Czech banking tax of up to EUR 100 million from 2023 to 2025, no further worsening of the geopolitical situation, and a stabilisation of European energy situation.

In 2023, Erste Group's core markets are expected to see real GDP growth of approximately zero to three percent. While inflation is expected to recede in 2023, it is set to remain elevated throughout the year. Unemployment rates are nonetheless projected to remain low (approximately 3% to 7%), supporting asset quality and will be instrumental in keeping risk costs at low levels. Current account balances are predicted to improve in 2023 in most countries, following significant deficits due to higher costs of energy imports. The fiscal situation will remain stretched amid a variety of fiscal policy challenges. Public debt levels across CEE will remain significantly below the EU average, though.

Against this backdrop, Erste Group expects higher than 10% net loan growth in 2022 and about 5% growth in 2023. This development, supported by sharper-than-expected rate hikes in CEE together with normalised policy interest rates of the ECB, should result in growth in net interest income of about 20% in 2022 and about 10% in 2023. The second important income component – net fee and commission income – is projected to grow by about 6% in 2022 and about 5% in 2023, following the exceptional performance in 2021. As in 2021, positive momentum should again come from payment services and the securities business. Positive contributions are also expected from insurance brokerage. The net trading and fair value result will very likely fall significantly short of last year's result in 2022 due to rate-driven valuation losses. The remaining income components should by and large remain stable. Overall, operating income should thus improve significantly in both 2022 and 2023. Operating expenses are expected to rise more moderately than operating income, at approximately 6% in 2022 and 7-8% in 2023, hence resulting in a cost/income ratio below 55% already in 2022, and thus significantly earlier than planned (2024). Erste Group thus sets a more ambitious CIR target of approximately 52% for 2024.

Given the assumption of continued strong labour markets across Central and Eastern Europe in 2023 risk costs should remain low and not exceed 35 basis points of average gross customer loans. Erste Group still assumes that in 2022 risk costs will not exceed 20 basis points of average gross customer loans. The NPL ratio should be around 2% in 2022 and below 3% in 2023.

Other operating result is expected to come in weaker than last year in 2022 due to higher banking levies such as contributions to resolution funds and banking taxes. For 2023 a further deterioration is possible due to the likely introduction of a windfall profit tax in the Czech Republic. Assuming an effective group tax rate of 18-19%, Erste Group aims to achieve a return on tangible equity (ROTE) of approximately 14% in 2022 and 13-15% in 2023. Erste Group's CET1 ratio should remain above 14% throughout the forecast period. For the 2022 financial year, Erste Group is planning to pay a dividend of EUR 1.90 per share. A potential share buyback will be revaluated in spring 2023.

Risks factors to the forecast include (geo-)political and economic developments (including the impacts of monetary and fiscal policies), regulatory measures as well as global health risks and changes in the competitive environment. Financial forecasts are moreover rendered even more uncertain by government-imposed Covid-19 measures and their effects on economic activity. The development of the Russia-Ukraine conflict does not have any direct impact on Erste Group as it does not maintain any local presence in either of these countries. Exposure to these two markets is immaterial. Indirect consequences such as financial market volatility or the impact of sanctions on some of Erste Group's clients cannot be ruled out, however. Erste Group is moreover exposed to non-financial, political and legal risks that may materialise regardless of the economic environment. A worse-than-expected development of the economy may also lead to a need for the write-off of goodwill.

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